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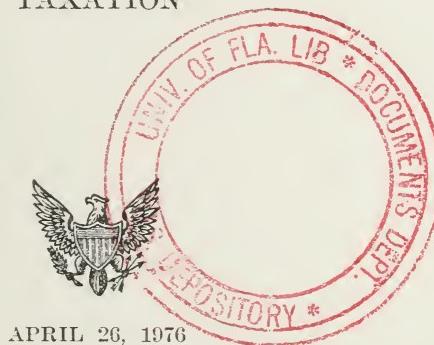
[COMMITTEE PRINT]

TAX REVISION ISSUES—1976
(H.R. 10612)

11

ENERGY MATTERS
(H.R. 6860)

PREPARED FOR THE USE OF THE
COMMITTEE ON FINANCE
BY THE STAFF OF THE
JOINT COMMITTEE ON INTERNAL REVENUE
TAXATION



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1976

70-090

JCS-18-76



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INTRODUCTION

This pamphlet presents summaries of matters that either had been agreed to tentatively in Senate Finance Committee markup sessions held on the House-passed energy tax bill (H.R. 6860, the Energy Conservation and Conversion Act of 1975) or that were dealt with in that bill. The pamphlet includes material relating to import restrictions, automotive energy conservation matters, other nonbusiness energy conservation measures, business conservation and conversion measures, and an Energy Development Bank or Energy Trust Fund.

In each of these areas, the pamphlet describes the Senate Finance Committee tentative decisions and the House bill (H.R. 6860); it also notes any subsequent relevant actions (e.g., separate enactment of auto efficiency standards and elimination of license fees). Subsequent material will discuss alternative proposals for dealing with such issues.

(1)

1. Import Restrictions

(The Finance Committee did not make tentative decisions with respect to this part (title I) of the House bill.)

A. Quotas

House bill

The House bill (sec. 111) would impose mandatory oil import quotas. These would be set at 6.0 million barrels per day (mbd) in 1975 and 1976, 6.5 mbd in 1977, 6.0 mbd in 1978 and 1979, and 6.5 mbd thereafter. The President would be authorized to vary the quota by 1.0 mbd in 1975-77, 1.5 mbd in 1978 and 1979, and 2.0 mbd in 1980 and future years. The President would be required to further reduce import quotas to the extent necessary to be sure that savings in U.S. oil consumption are reflected in reduced imports. Imports of petrochemical feedstocks, and imports for strategic oil reserves would be exempt from the quota system; and imports of residual oil and heating oil (within the quotas set above) would be guaranteed at 2.0 mbd for 1975-77 (of which no more than 400,000 barrels per day could be heating oil).

B. Import Licensing System

House bill

Under the House bill (sec. 112), the Federal Energy Administration would distribute import licenses by public auction, and there would be a separate auction for small refiners and independent marketers. This system was to be established before December 31, 1975; the 1975 quotas (described above) were to begin to apply the day the license system was to go into effect.

C. Duties—Restriction on Prior Authority

House bill

Under the House bill (sec. 121), the President's authority to impose import restrictions on oil under the national security provisions of the Trade Expansion Act of 1962 would be ended except in time of war, etc., and the then existing license fees on oil (\$2.21 per barrel on crude oil and \$1.23 on petroleum products) which the President imposed under this provision would be repealed (but see new duties set forth in item immediately below).

Subsequent action

On August 11, 1975, the Court of Appeals for the D.C. Circuit ruled that the import license fees imposed initially by President Nixon effective May 1, 1973, and increased significantly by President Ford in 1975 (by \$2.00 per barrel on crude oil and \$0.60 on petroleum products) were illegal because they exceeded the President's authority under the

Trade Expansion Act. The FEA has appealed this decision to the Supreme Court. Effective December 22, 1975, President Ford removed these license fees. The disposition of the \$1.8 billion in fees collected after May 1, 1973, is currently pending before the Supreme Court.

D. Duties—New Authority

House bill

Instead of the license fees described above, the House bill (sec. 121) would establish a new ad valorem tariff of 2 percent (approximately 21 cents at mid-1975 prices) for crude oil and 5 percent (approximately 60 cents at mid-1975 prices) for petroleum products. The President would be given the authority to raise these tariffs to 10 percent (between \$1.00 and \$1.20 at mid-1975 prices) or \$1 a barrel, whichever is higher, except that the tariff on imports of residual oil and heating oil could not exceed 5 percent for 2 years. (The 10-percent tariff approximates the \$1 license fee that the President imposed on crude oil on February 1, 1975, plus the 21-cent import license fee that was first imposed in 1973.)

Subsequent action

As described above, the Court of Appeals has declared the President's license fees illegal in a decision now on appeal to the Supreme Court. The President has removed the fees.

2. Automotive Energy Conservation Programs

A. Auto Efficiency Standards

Senate Finance

The Senate Finance Committee tentatively voted down a proposed set of auto efficiency standards similar to those in the House bill. The general issue was left open to further consideration.

House bill

The House bill (secs. 211-217) would establish a set of auto efficiency standards—18.5 miles per gallon (mpg) for the 1978 model year, 19.5 mpg for 1979, 20.5 mpg for 1980, and 28.0 mpg for 1985 and thereafter. Companies would have to meet the standards (or pay the penalties, discussed below) on their U.S. and foreign car production separately, with domestic production defined to include Canada. The Secretary of Transportation would establish standards for the years 1981-84, and the 1985 standard could be changed by the Secretary subject to a one-House congressional veto. The bill would impose on any manufacturer who fails to meet these standards by as much as 0.5 miles per gallon a civil penalty of \$50 per car for each mile per gallon by which the manufacturer's sales-weighted "harmonic" fleet average gas mileage is below the standard. This penalty would not be deductible under the Federal income tax. (The Secretary of Transportation is also to establish separate standards for light-duty trucks, multipurpose passenger vehicles, and vehicles manufactured by companies that manufacture fewer than 10,000 vehicles per year. The civil penalty rules described above would also apply to vehicles failing to meet these standards.) The Secretary of Transportation also would reduce the mileage standards to the extent necessary to take account of any more stringent auto emissions standards imposed in the future. Any manufacturer that exceeds the mileage standards by more than 0.5 mpg for any one model year would be permitted to carry back or carry over this excess for one year (thereby reducing the mileage standard for the year to which the excess is carried).

Subsequent action

The Energy Policy and Conservation Act (Public Law 94-163) which was recently enacted includes auto efficiency standards that are similar to those in the House version of H.R. 6860.

B. Buses

Senate Finance

The Senate Finance Committee tentatively voted to exempt all buses from the manufacturers excise tax now imposed on trucks (other than light-duty trucks), buses, trailers, etc.

House bill

The House bill (sec. 221) would exempt from this tax all buses to be used predominantly in public passenger transportation service, effective on the date of enactment.

C. Radial Tires, Tread Rubber*Senate Finance*

The Senate Finance Committee tentatively decided to accept the House bill's exemption of radial tires from manufacturers excise tax, with some technical changes relating to floor stocks refunds and original equipment tires. Also, the tax on all tread rubber would be repealed.

House bill

The House bill (sec. 222) would repeal the excise tax on radial tires (and tread rubber for such tires), effective on March 18, 1975.

D. Lubricating Oil*Senate Finance*

The Senate Finance Committee tentatively decided to accept the House bill's rules on new lubricating oil mixed with rerefined lubricating oil.

House bill

The House bill (sec. 223) would repeal the excise tax on new oil used in a mixture with rerefined lubricating oil, effective on March 18, 1975.

E. Electric Motor Vehicles*Senate Finance*

The Senate Finance Committee tentatively decided to delete the House bill's credit for electric cars.

House bill

The House bill (sec. 233) would provide a 25-percent tax credit for the purchase of electric cars for personal use on highways, up to a maximum \$3,000 of expenditures (\$750 maximum credit). The credit would be available for the period June 4, 1975, through December 31, 1978.

3. Other Nonbusiness Energy Conservation Programs

A. Home Insulation

Senate Finance

The Senate Finance Committee tentatively decided to provide a refundable income tax credit for home insulation equal to 30 percent of insulation expenditures, up to a maximum expenditure of \$750 (maximum credit of \$225). This amount is not to be reduced on account of expenditures by a prior owner. The credit would be available for the period March 18, 1975, through December 31, 1977.

House bill

The House bill (sec. 231) would provide a similar credit, except that: (1) the maximum expenditures taken into account would be \$500, (2) the \$500 would be reduced by prior owners' insulation expenditures, and (3) the credit would not be refundable.

Subsequent action

The Senate Commerce Committee is expected to begin marking up a bill to provide loan subsidies for home insulation improvements.

B. Home Solar Energy and Geothermal Energy

Senate Finance

The Senate Finance Committee tentatively decided to provide a refundable income tax credit for solar energy and geothermal energy equipment installed in, on, or connected to a residence. The credit is 40 percent of the first \$1,000 of qualified expenditures, plus 25 percent of the next \$6,400 (maximum credit of \$2,000). The solar energy equipment must meet definitive or interim performance criteria prescribed by the Secretary of Housing and Urban Development. The credit is available for equipment installed on any residence of the taxpayer, without regard to whether the taxpayer installed such equipment on any other residence. The credit is available for the period March 18, 1975, through December 31, 1980.

House bill

The House bill (sec. 232) would provide similar credit, except that: (1) the credit would be 25 percent of the first \$8,000, (2) the credit would not be refundable, (3) the qualified expenditures would be reduced by expenditures made by that taxpayer for other residences, and (4) geothermal energy equipment expenditures would not be eligible for the credit.

Subsequent action

The Senate Commerce Committee is expected to begin markup on a bill to provide loan subsidies for energy conservation improvements.

4. Business Energy Conservation Programs

A. Business Use of Oil and Natural Gas

Senate Finance

The Senate Finance Committee tentatively decided to provide an excise tax on oil and gas used in business as a fuel. The tax is phased in between 1977 and 1980 for natural gas, and between 1977 and 1982 for oil. When fully effective, the rates will be \$1 per barrel for oil and 18 cents per thousand cubic feet for gas. There are exemptions for use as reformer fuel, natural gas used in gas pipeline compressors, extraction of oil or gas, vessels, aircraft, apartments and other residential facilities, mining, textiles, glass, farming, existing facilities for generating electrical power (in this latter case only until 1982 and only if either EPA certifies that environmental requirements force use of oil or gas or FEA certifies that there is no economically feasible alternative to use of oil or gas), vehicles (but only as to diesel fuel or where gasoline would be exempt under present law—e.g., sales to State or local governments), and tax-exempt educational, charitable, or religious organizations (but not for these organizations' unrelated trades or businesses). By April 1, 1976, FEA is to make a report as to factors bearing on uses which should be exempt from this tax.

House bill

The House bill (sec. 411) would provide a similar tax, except that; (1) exemptions would not be provided for reformer fuel, pipeline compressors, and extraction of oil or gas; (2) existing electrical power generators would be exempt until 1982 without the need of EPA or FEA certificates; (3) vehicular use would be exempt from this business use tax even where gasoline is taxable under present law, and (4) the FEA report would be due by June 1, 1976.

B. Business Insulation

Senate Finance

The Senate Finance Committee tentatively decided to extend the investment credit to insulation in the case of businesses. The credit is to be available, at the 10-percent rate, for insulation installed after March 17, 1975, and before January 1, 1981, in the case of new structures as well as existing structures.

House bill

The House bill (sec. 431) would provide a similar credit, except that: (1) the period for installation of the equipment would end December 31, 1977; (2) the credit would be available only as to buildings in existence on March 17, 1975; and (3) the credit would be at the then current investment credit rate.

Subsequent action

The Senate Commerce Committee is expected to begin markup of a bill to provide loan subsidies for energy conservation improvements by small business.

C. Business Solar Energy and Geothermal Energy

Senate Finance

The Senate Finance Committee tentatively decided to extend the investment credit to solar energy equipment and geothermal energy equipment in the case of businesses. The credit is to be at the rate of 20 percent for equipment installed after March 17, 1975, and before January 1, 1981; and at 10 percent for equipment installed after December 31, 1980, and before January 1, 1986. The credit is to be available for new structures as well as existing structures.

House bill

The House bill (sec. 431) would provide a similar credit except that: (1) the credit would not be available for geothermal energy equipment; (2) the credit would be available only for equipment installed after March 17, 1975, and before January 1, 1981; and (3) the credit would be at the then current investment credit rate.

D. Room Air Conditioners and Space Heaters

Senate Finance

The Senate Finance Committee tentatively decided to remove the investment credit for room air conditioners and space heaters.

House bill

The House bill (sec. 431) would provide the same treatment as the Senate Finance Committee tentative decisions.

E. Qualified Waste Equipment and Deep Mining Coal Equipment

Senate Finance

The Senate Finance Committee tentatively decided to allow an increased investment credit for waste-burning and recycling equipment and for deep mining coal equipment. The credit is to be at the rate of 12 percent for equipment installed after March 17, 1975, and before January 1, 1981.¹

House bill

The House bill (sec. 421) would provide 5-year amortization for such equipment.

Subsequent action

The Senate Commerce Committee is expected to begin marking up a bill that would provide loan guarantees for business energy conservation investments.

¹ In addition, the Senate Finance Committee tentatively decided to allow an additional one-percentage point of investment credit if the taxpayer has in effect an employee stock ownership plan. Also, the Tennessee Valley Authority would be entitled to reduce its annual repayments to the United States by the amount of the investment credit it would be entitled to under this provision if TVA were a taxable corporation.

F. Qualified Shale Oil Conversion Equipment, Coal Processing (Gasification and Liquefaction) Equipment, and Coal Pipelines

Senate Finance

The Senate Finance Committee tentatively decided to allow an increased investment credit for shale oil conversion equipment, coal processing (gasification and liquefaction) equipment, and coal pipelines. The credit is to be available at the rate of 12 percent for equipment installed after March 17, 1975, and before January 1, 1986. (The rules described in footnote 1 (qualified waste equipment) are also to apply to the types of equipment described in this provision.)

House bill

The House bill (sec. 421) would provide 5-year amortization for essentially the same equipment, except that the qualified shale oil conversion property would not include equipment to remove impurities.

G. Qualified Gasoline Substitute Equipment

Senate Finance

The Senate Finance Committee tentatively decided to allow an increased investment credit for equipment used to convert organic material into methanol or any other synthetic fuel which can be substituted for, or blended with, gasoline for use as a fuel. The credit is to be at the rate of 12 percent for equipment installed after July 21, 1975, and before January 1, 1982. (See footnote 1—qualified waste equipment.)

House bill

The House bill does not have a comparable provision.

H. Qualified Railroad Equipment

Senate Finance

The Senate Finance Committee tentatively decided to allow an increased investment credit for certain railroad equipment and rolling stock. The credit is to be at the rate of 12 percent if installed after July 24, 1975, and before January 1, 1981. (See footnote 1—qualified waste equipment.)

House bill

The House bill (sec. 422) would provide 5-year amortization for such equipment, but only through December 31, 1979.

I. Qualified Geothermal and Seathermal Equipment

Senate Finance

The Senate Finance Committee tentatively decided to allow an increased investment credit for geothermal equipment and seathermal equipment. This applies to (1) geothermal equipment which is necessary to gather or distribute geothermal steam or associated geothermal resources to consumers of such energy and to seathermal equipment which is designed to convert ocean heat into significant quantities of electric energy through the use of large-scale floating power plants or otherwise. The credit is to be at the rate of 12 percent for equipment installed after March 17, 1975, and before January 1, 1981. (See footnote 1—qualified waste equipment.)

House bill

The House bill had no comparable provision.

J. Recyclable Paper Purchases*Senate Finance*

The Senate Finance Committee tentatively decided to allow an investment credit for the cost of used paper which is recycled by the taxpayer. The credit is to be at the rate of 10 percent of the purchase price of the paper and is to apply to purchases made after December 31, 1975.

House bill

The House bill had no comparable provision. However, the bill reported by the House Ways and Means Committee included a provision (deleted by a House floor amendment) which was similar, except that the credit would not be allowed until the taxpayer purchased recycling equipment.

K. Investment Credit for Oil- and Gas-Burning Electrical Generating Equipment*Senate Finance*

The Senate Finance Committee has not as yet made tentative decisions with respect to this issue.

House bill

The House bill (sec. 432) would remove the investment credit for oil- and gas-burning electrical generating equipment (with an exemption for property placed in service in the future pursuant to existing contracts or certain types of existing commitments). Apart from this exemption, the loss of investment credit would apply to property placed in service after April 17, 1975.



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5. Energy Development Loan Guarantees or Trust Fund

Senate Finance

The Senate Finance Committee tentatively decided to provide an energy development loan guarantee program to encourage the commercial development by private industry of new and alternative energy sources. Loan guarantees for up to 80 percent of the cost of a project could be made available, but only if recommended by a 5-member Presidentially-appointed advisory board and approved by the Secretary of the Treasury. Loan guarantee agreements could be entered into up to December 31, 1980. Loans guaranteed in any fiscal year could not exceed \$2.5 billion. The loan guarantees are to be backed by receipts from existing tariffs (or tariffs that might otherwise be provided in the bill) of 10 cents per barrel of oil (plus loans from the general Treasury, if needed).

The committee also decided to delete the Energy Trust Fund provision of the House bill.

House bill

The House bill would establish an Energy Conservation and Conversion Trust Fund. The trust fund could be used for (1) basic and applied research on new energy technologies, (2) development and administration of new energy technologies, (3) development of energy resources from U.S. lands, (4) research projects and capital expenditures for demonstration projects relating to more efficient public transportation. Trust fund receipts would include revenues from the import tariff provided by the bill, the tax on business use of oil and gas as fuels, and (if subsequently authorized) proceeds from U.S. oil and gas properties. The trust fund would terminate on October 1, 1985. Expenditures could be made out of the fund only subject to annual authorizations and appropriations.

Subsequent action

The Senate Commerce Committee is expected to begin marking up a similar bill.

(11)



